

# ICPS newsletter

## The Ukrainian public proposes an action plan for the President

*Democratic elections represent a mechanism for manifesting the people's will. The newly elected President is called to translate this will into state policy and channel government activity to achieve society's goals. The success of the President's policy will depend on the people's trust and support. Wide-ranging public discussions conducted during November, 1999 led to an understanding of the necessity to elaborate the government's reform strategy as a consistent process aimed at achieving society's goals. Recommendations on such a strategy are presented in the document "Ukraine's Future: A Plan for the President", organised in the form of a report to Ukraine's newly elected President. The report to the President was supported by the International Centre for Policy Studies, the Association of Small, Medium, and Privatised Businesses, the Trade Union Federation for Employees of Cooperatives and Other Forms of Business, the New Generation Ukrainian NGO, and the Freedom of Choice Coalition. The main conclusions of this document, published in the new issue of ICPS's journal Policy Studies, are presented below*

From the first days of its independence, the Ukrainian government has received recommendations on economic reforms, prepared by excellent foreign specialists. Textbook-perfect sets of measures have been repeatedly proposed, with the aim of addressing Ukraine's most acute problems. Nevertheless, the expectations of the international community for the implementation of these measures have not been realised. At the end of 1999, the disappointment has increased, since postponing reforms has put Ukraine in a position of possibly not fulfilling its foreign debt liabilities.

Why were the proposed reform measures not implemented, or why could they not be?

Under the Soviet regime, the government performed exclusively administrative functions, which did not envisage matching its actions with overall society's objectives. The Ukrainian government has therefore lacked the capacity to develop strategies for state policy as a consistent action plan aimed at achieving society's goals. Consequently, the recommendations of

the international community were not accepted, since they were not planned as an integrated governmental strategy.

In a democratic society, government should undertake new functions—developing and implementing policy decisions—taking into consideration the existence of democratic societal institutions such as freedom of speech, an independent parliament, political parties, and opposition. Every decision needs to be justified, showing its advantages over other options and analysing its consequences. In other words, analytical underpinnings must be created and social support must be won.

A series of seminars conducted within the framework of the project "Ukraine's Future: A Plan for the President" served as an excellent demonstration of creating a democratic mechanism for achieving consensus on a societal development strategy. Working groups included experts from non-governmental organisations together with government representatives and international advisors. Participants set themselves the objective of determining relationships

among problems, measures to overcome them, and society's goals, as well as elaborating a consistent plan of reforms and assessing resources and constraints in their implementation.

The public discussions testified to:

- our common vision of Ukraine's future as a prosperous European country;
- society's readiness to accelerate reforms, which are declared in your program;
- correspondence of the proposals expressed herein on economic policy to recommendations based on the best in international experience.

In order to implement reforms, day-to-day activity of the government should be in line with reconciled priorities that will ensure achieving society's goals in the most effective way. Joint work during the held discussions resulted in recognition of the following priorities for transforming Ukrainian society:

### · **Reforming the government.**

Government should become an effective tool for developing, adopting, and implementing policy decisions. Analytical justification of political decisions requires the development of new procedures, functions, and skills within the government.

### · **Promoting entrepreneurial initiative.**

Freedom of economic activity, under defined and competitive "rules of the game", will channel people's energy towards creating wealth to improve their own welfare.

### · **Ensuring efficiency of public expenditures and targeted social security.**

The lack of mechanisms for controlling expenditures carries the risk of excessive resource withdrawal from the

economy, and low efficiency of public expenditures threatens commitments to protect vulnerable strata of society.

**· Instillment of relevant skills.**

Development of a market economy and democracy requires new approaches in education, aiming at ensuring consistency between training programs and the knowledge required in a market environment.

Most of the problems faced by Ukraine have no simple solutions. In order to start addressing existing problems, an integrated reform strategy must be elaborated. We hope that this document will help President be successful during presidential term. ■

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# Moving towards objective-based budgeting

***To achieve economic growth and increase living standards of the population it is necessary to introduce a mechanism of effective allocating budget funds that will ensure the greatest benefits for society at the lowest cost. Participants of the last quarterly seminar on "Moving towards objective-based budgeting", held as a part of ICPS's Center of Policy Excellence (budget policy) project, discussed the work done by the Ministry of Finance of Ukraine on improving the efficiency of state expenditures***

Mr. Anatoli Maksiuta, head of the Budget Department of the Ministry of Finance of Ukraine, identified a number of factors causing the low efficiency of allocating budget expenditures in Ukraine. Ministries and other central executive bodies do not have incentives for improving the quality of their expenditures. One of the aspects of this problem is the large number of central government spending units that does not allow the ministries develop and implement a single policy in their sectors and be fully responsible for its realisation, while the government is not able to allocate its limited resources for priority activities. The budget process does not include a procedure for analysing the effectiveness of government expenditures.

Mr. Maksiuta believes that a program budgeting format should be implemented in order to resolve these problems. Program budgeting defines the goals of each agency allocating budget funds, and correlates organisation activities contributing to each goal. To ensure the efficiency of expenditures criteria need to be developed for government program evaluation, as well as clear procedures for receiving and spending funds, and a management culture focused on increasing expenditure efficiency needs to be created.

The Ministry of Finance drafted a

preliminary plan of activities for increasing the efficiency of budget expenditures. According to the seminar participants, the most important activities reflected in this document are the following:

· *Developing a draft Presidential Decree on budget policy of Ukraine for 2001-2003.* This document will define measures to be taken in the process of preparing the State Budget-2001 and budget policy priorities for 2001-2003. The draft will include a proposal to use a program and objective-based budgeting approach, and determine concrete priorities for government expenditures.

· *Adopting a Cabinet of Ministers Resolution on shortening the list of central government spending units* and limiting them to only ministries and other central executive bodies.

· *Organising training seminars for employees of the Ministry of Finance and central government spending units.* Seminar programs should include studying contemporary budget development concept, as well as the experience of other countries in the field of budget development using programmatic and objective-oriented approaches.

· *Introducing medium-term budget planning.* This activity entails forecasting of budget indicators for the following

2-3 years, along with drafting the budget for next year. This will improve the assessment of implications of government expenditure decisions, their impact on the macroeconomic situation, and will promote the adoption of more rational decisions.

· *Preparing draft legislative acts on reforming the budget process.* These documents should include strengthening authorisations and responsibilities of government officials for development and implementation of financial policy in relevant sectors; approving a procedure for sectoral ministers to report to the Verkhovna Rada concerning execution of their budget assignments; and clear separation of authorities of legislative and executive branches concerning the development of budget policy.

· *Introducing a system to continuously publicise data in budget expenditures, especially for budgetary programs.* The forms of publicity should include the financial results of applying state funds, and also an evaluation of budgetary agencies and organisations.

· *Organising a system of regular communication between the government and the parliament, i.e., discussing measures for increasing the efficiency of government expenditures, forming relevant public opinions, and reaching agreement on and support of these measures by the Verkhovna Rada.* ■

*The quarterly seminar on "Moving towards objective-based budgeting" was held as part of ICPS's Center of Policy Excellence (budget policy) project on December 11, 1999.*

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